CHAPTER I

INTRODUCTION

1.1 Statement of the Problem

The retail industry has been at the helm of India’s growth strategy. The retail sector has progressed dramatically from traditional village fairs and street hawkers to impressive malls and plush retail outlets. According to Joseph et al. (2008), India is the seventh-largest retail market in the world, and is expected to grow at a Compound Annual Growth Rate (CAGR) of over 13% till 2012. Furthermore, it is estimated to grow from US$427 billion in 2010 to US$637 billion in 2015. Organised retail sector has been growing at a faster pace than traditional outlets. A report by investment bank, Northbridge Capital, ‘Indian Retail Research 2009’ estimates that although, organised retail accounts for just 14%, or US$63 billion, yet this sector is expected to grow 40% faster than the overall market to reach US$90 billion in 2010. Higher disposable incomes, alterations in people’s lifestyle, easy availability of credit cards, high exposure of brands through media, and increasing number of malls and branded outlets have enabled this transition of sales from traditional outlets to organised retail. The Indian government in 2005 allowed foreign direct investment (FDI) in single brand retail up to 51 percent. This has opened up a lot of opportunities in the organised retail sector.

An ever increasing competitive marketplace has led the retailers to seek strategies to insulate themselves and increase their profit. Along with this, consumers have the option of shopping from multiple venues like retail stores of various sizes, catalogues, television, and the internet, and therefore, deciding where to shop has become a key decision (Kirkup and Rafig 1999; Houston and Nevin 1980). Moreover, large-format, modern retail chains in India
have established themselves by reaching critical volumes, and hence, the next step of the classical retail story has begun with the introduction of private label brands (PLBs) (Abend 2000; Ailawadi 2001; Corstjens and Lal 2000). In turn, these strategies would enable them to build a competitive advantage. PLBs are the brands that are owned, controlled and sold exclusively by a retailer (Baltas 1997). Furthermore, Fitzell (1992) has suggested that exclusivity is the key word as competitors in the same market do not carry the same PLBs. In this light, PLBs are also known as store brands, retailer brands, own brands, wholesaler brands or distributor own brands. The present scenario is such that, PLBs have proliferated in a number of product categories and have garnered large market share. When compared with national label brands (also known as manufacturer’s brands), PLBs offer a large plethora of value (see Appendix I). It can be seen that apart from other benefits, PLBs offer retailers a means to differentiate their stores, achieve consumer loyalty, as well as increase their profitability.

From the point of view of consumers, a PLB is a guarantee of consistency, quality and value. The ways in which PLBs add value are by–offering choice at the same price, filling price gaps and by launching innovative products which may not have sustainable volumes nationally. The third is the best way for private labels to create value and build a brand for themselves.

For the past four decades (Call 1967; Coe 1971; Stern 1966), research on PLBs has been of prime interest to academicians as well as to marketers (Narasimhan and Wilcox 1998). Initial studies were focussed mainly on the demographic, psychographic, and behavioural characteristics of PLBs consumers (Bellizi et al. 1981; Coe 1971; Myers 1967). Since the 90’s, majority of the studies have looked into the corporate level factors, i.e. price differential between PLBs and national brands; their promotional intensity and category margins (Cotterill, Putsis, and Dhar 2000; Hoch and Banerji 1993; Raju, Sethuraman, and
Dhar 1995); price sensitivity and quality perceptions (Burt and Sparks 2002; Dunne and Narasimhan 1999; Hoch and Banerji 1993; Quelch and Harding 1996); favourable consumer segments towards PLBs (Baltas and Doyle 1998; Livesey and Lennon 1978); and optimal requisites for the introduction of PLBs along financial and category lines (Narasimhan and Wilcox 1998; Putsis and Dhar 2001; Sayman and Raju 2004; Semejin, van Riel, and Ambrosini 2004).

A thorough review of existing literature has lead to the conclusion that only a few studies (Ailawadi, Neslin, and Gedenk 2001; Corstjens and Lal 2000; Steenkamp and Dekimpe 1997) have directly dealt with PLBs by addressing consumer loyalty. The ‘store-as-the-brand’ strategy has become one of the most important means of developing consumer loyalty among speciality store retailers (Smith 2000). According to a study by ‘New Merchandising’ in 1999, “By creating a retail store as a brand, the retailer is better able to deliver a perception of selling higher-quality, fashion-forward merchandise.” In turn, this type of branding strategy enables the retailer to establish a market-based relational asset that endows a source of competitive advantage (Srivastava, Shervani, and Fahey 1998).

Dick and Basu (1994, p. 99) are of the view that the central thrust of the marketing activity of any firm should be viewed in terms of development, maintenance, or enhancement of consumer’s loyalty towards its product or services. Corstjens and Lal (2000) as well as Ailawadi (2001) have concluded that PLB loyalty is likely to increase profit for the retailer because loyal consumers tend to purchase a higher percentage of merchandise from the retailer. The success of the PLB loyalty strategy is dependent upon several factors; the most critical among them is the retailer's (brand's) ability to fulfil its promises to the consumer. The continued fulfilment of promises usually leads to a long-term, profitable relationship between the retailer and the consumer. The retail brand's promises are related to the consumer
shopping value (i.e. utilitarian and hedonic) that it offers to the consumers. This value is derived by the consumer with each shopping trip for the brand.

Traditionally, consumer buying behaviour has been depicted as a rational and goal oriented framework (e.g. Howard and Sheth 1969). This goal seeking and task related behaviour has been the predominant theory for many years. However, in more recent years consumer behaviour literature has shifted its focus upon the role of emotions and pleasure (Adaval 2001; Bagozzi, Gopinath, and Nyer 1999; Hirschman and Holbrook 1982; Hoffman and Novak 1996; Oliver, Rust, and Varki 1997; Van Trijp, Hoyer, and Inman 1996). This school of thought has deliberated upon consumer shopping orientation in terms of ‘economic’ versus ‘recreational’ orientation (e.g. Bellenger and Korgaonkar 1980; Korgaonkar 1981) or ‘hedonic’ versus ‘utilitarian’ orientation (e.g. Babin, Darden, and Griffin 1994; Hirschman and Holbrook 1982). The basis of consumer shopping orientation/value has extended from the acquisition of a product or service (Grewal, Monroe, and Krishnan 1998; Richins 1994) to its consumption (i.e., its use or appreciation) (Bloch and Richins 1983; Hirschman 1984; Holbrook 1994) and finally, to the enjoyment of the entire shopping experience (Babin, Darden, and Griffin 1994; Griffin, Babin and Modianos 2000; Kim 2002; Pine and Gilmore 1999). Therefore, consumer’s perceived shopping value involves an interaction between a consumer and a product that pertains not only to the object itself, but also to the consumption experience. Babin, Darden and Griffin (1994) have confirmed in their study that the two aspects of goal-seeking (i.e., utilitarian value) and pleasure-oriented (i.e., hedonic value) behaviour are complementary and intertwined, and therefore, they need to be taken together into account to achieve a richer understanding of the consumer buying process.

Researchers have continuously sought to investigate the utilitarian and hedonic aspects of shopping value in several disciplines including sociology, psychology, and economics, although the terminology was not used consistently (Batra and Ahtola 1991;
Crowley, Spangenberg, and Hughes 1992; Hamilton 1987; Hirschman and Holbrook 1982). Hamilton (1987, p. 1541), an economist, has stated that, “We use goods in two ways. We use goods as symbols of status and simultaneously as instruments to achieve some end-in-view.” This viewpoint has clearly combined both facets of utilitarian as well as hedonic consumption. This multidisciplinary recognition of the utilitarian and hedonic elements of consumption has mirrored a parallel theoretical development in the field of consumer research as well.

Consumer shopping value and consumer satisfaction research streams in particular, have witnessed significant developments in the last decade. The changes in consumers’ shopping patterns and demands are linked to the shifts and diversities in their shopping value. Consumers are being offered a variety of choices for shopping (for example, brick and mortar stores, brick and click stores or simply online shopping options) and they are most likely to choose the one in which they can do their shopping most efficiently and pleasantly. From the point of view of consumers, obtaining value is a fundamental shopping goal and pivotal to all successful exchange transactions (Holbrook 1994). Creating consumer value is increasingly seen as the next source of competitive advantage, replacing the quality management paradigm (Woodruff 1997) and it is of major and increasing concern to consumers and marketers alike (Patterson and Spreng 1997). Even more broadly, value has been called the basis for all marketing activity (Holbrook 1994). Therefore, marketers must understand not only what their consumers perceive as important in relation to shopping, but also how they are defining their shopping value. By understanding what their consumers’ value is, they can focus their attention on selecting a strategy for a particular market segment, channeling resources more effectively (Zeithaml 1988), and converting a one-time consumer into a patronizing consumer (Spiegelman 2000). Bolton, Kannan, and Bramlett (2000) have stated
that “consumers make re-patronage decisions on the basis of their predictions concerning the value of a future product/service.”

On the other hand, consumer satisfaction is a central concept in marketing as it is assumed to be a significant determinant of repeat sales, word of mouth communication, and consumer loyalty. Hallowell (1996) has suggested that “satisfaction is the consumer’s perception of the value received in a transaction or relationship.” Woodruff (1997) concluded that the concept of consumer value suggests a strong relationship to consumer satisfaction but still research is lacking. While both value and satisfaction have been separately investigated (Gale 1994; Woodruff 1997; Zeithaml 1988), the role that consumer value plays in enhancing satisfaction has received limited attention (Day 2002). Furthermore, Cronin, Brady, and Hult (2000) have concluded that the value-satisfaction research is still in its embryonic stage. Oliver (1999) has raised questions about the relationship between the two concepts, by raising such worthwhile questions like, “what is the relationship between satisfaction and value?” and “is satisfaction an antecedent or a consequence of value?”

1.2 Statement of Purpose

As these three research streams progressed, however, parallels between the three areas have not been investigated. The literature on store loyalty has several examples of conceptual and empirical development of the consumer benefit/loyalty framework (DeWulf, Odekerken-Schroder and Iacobucci, 2001; Macintosh and Lockshin 1997; Reynolds and Arnold, 2000; Reynolds and Beatty 1999). However, these studies have focussed on consumer benefits that are derived from the interactions between the consumer and salesperson, the consumer and the store, and/or the consumer and the company. Furthermore, several researchers in the field of consumer behaviour (Dawson 2000; Parasuraman and Grewal 2000; Peterson and Balasubramanian 2002) have contended that consumer brand selection and PLB loyalty to be
under-researched perspectives. A very considerable element that has been ignored in this developing research stream is the effect of consumer shopping value on consumer satisfaction and loyalty at the brand level. To be more specific, the effect of consumer shopping value on consumer satisfaction and its behavioural outcomes (loyalty, word of mouth, and intention to switch) with respect to PLBs has been completely ignored (with the exception of Carpenter and Fairhurst 2005). Considering the growing significance of PLBs in the retail industry, it is but imperative to understand the relationships between perceived consumer shopping value (i.e., utilitarian and hedonic), consumer satisfaction and its behavioural outcomes (loyalty, word of mouth, and intention to switch).

The objective of this research is to fill this gap and extend the current knowledge of the relationship between consumer shopping value, consumer satisfaction and its behavioural outcomes. These three perspectives have been used to develop a conceptual framework that explains the process by which consumer shopping value impacts consumer satisfaction, as well as post-purchase behavioural outcomes. By developing a conceptual framework for this phenomenon and subsequently testing the proposed hypotheses, this research aims to offer a better understanding of some of the determinants of consumer satisfaction and loyalty. Furthermore, it is hoped that the results of the present study will provide future research directions for academics and proffer recommendations for practitioners who choose to utilize PLB strategies. Towards this end, the research will focus on three categories of PLB products (i.e., food and grocery; apparel; consumer durables). These three different product categories have been selected on the basis of their market share.
1.3 Conceptual Framework

Based on the review of previous research, the following model is proposed. Fundamentally, the theoretical model (Figure 1.1) shows the structural dimension of the effect of consumer shopping value (i.e., utilitarian and hedonic) on consumer satisfaction and its behavioural outcomes (i.e., loyalty, word of mouth communication, and intention to switch). In other words, the proposed model focuses on the development of PLB satisfaction and loyalty based on the consumers’ perceived shopping value derived from the purchase experience. The consumers’ perceived shopping value (i.e., utilitarian and hedonic) derived from the purchase experience of PLBs lead to the development of feelings and attitudes (i.e., satisfaction) towards the PLBs. In turn, PLB satisfaction affects attitudinal and behavioural loyalty toward the PLB. In addition, the model proposes that PLB satisfaction leads to intention to switch. Furthermore, the proposed theoretical model also intends to test the effect of loyalty as a mediator between consumer satisfaction and word of mouth communication. The model also intends to find the moderating effect of certain socio-demographic factors (i.e., gender, age and income) as well as product category (i.e., food and grocery; apparel; consumer durables) on the above relationships.

This model is suggestive of structural relationships among the variables that can be tested by the help of a structural equation modelling procedure. Moreover, it reflects the theoretical and structural dimensions showing the path structure that considers all covariances.
Figure 1.1: Conceptual Framework
1.4 Research Questions

The current study seeks to understand the effect of consumer shopping value (i.e., utilitarian and hedonic) derived from the experience of purchasing PLB products on consumer satisfaction and its behavioural outcomes (i.e., loyalty, word of mouth communication, and intention to switch). Although theory is not sufficient for addressing such a relationship directly, it is meaningful to investigate the above mentioned constructs. Therefore, the current study has endeavoured to address the following broad research questions:

- How is consumer shopping value (i.e. utilitarian and hedonic), derived from the experience of purchasing PLB products, related to consumer satisfaction?
- How is consumer shopping value (i.e. utilitarian and hedonic), derived from the experience of purchasing PLB products, linked to consumer satisfaction, consumer loyalty, word of mouth communication, and intention to switch?
- Is the linkage of above mentioned constructs significantly different for the three unrelated types of PLB product categories?
- Is the above relationship significantly different with regard to socio demographic characteristics?

The specific objectives of the study are:

1. To assess the relationship between utilitarian shopping value and consumer satisfaction in the purchase of the three different product categories of PLB.

2. To assess the relationship between hedonic shopping value and consumer satisfaction in the purchase of the three different product categories of PLB.
3. To assess the relationship of consumer satisfaction and loyalty in the purchase of the three different product categories of PLB.

4. To assess the relationship of consumer satisfaction and word of mouth communication in the purchase of the three different product categories of PLB.

5. To assess the relationship of consumer satisfaction and intention to switch in the purchase of the three different product categories of PLB.

6. To assess the mediating effect of loyalty with respect to consumer satisfaction and word of mouth communication.

7. To present the overall structural model of the relationship between consumer shopping value, consumer satisfaction and its behavioural outcomes in the purchase of the three different product categories of PLB.

8. To investigate if statistically significant differences by socio demographic characteristics exist in the above relationship.

1.5 Potential Contributions

The proposed research has the potential to make insightful theoretical and managerial contributions. Theoretically, the research will significantly contribute to two major literature streams. Firstly, the PLB literature will be enhanced insofar as this is the first effort (Indian context) aimed at investigating the impact of PLB on consumer shopping value, satisfaction, and its resultant consumer behaviour.

Secondly, the present research will also contribute to the satisfaction literature. Scholars in this area have traditionally viewed satisfaction to be a cognitive response to the comparison of the actual consumption experience with some comparison standard
(confirmation/disconfirmation paradigm). This paradigm firmly dominates the satisfaction literature. Recently, there has been increasing calls for satisfaction measures to capture not just how the consumer thinks the product has performed relative to the comparison standard, but also the resulting consumer emotion (Oliver 1993; Woodruff and Gardial 1996). The argument is that the higher the level of emotions generated by products and services (both positive and negative), the more motivating consumer satisfaction is in terms of future behaviours such as loyalty or word of mouth communication (Woodruff and Gardial 1996). The present paper adds to the satisfaction stream of research by providing evidence of an affective route, in addition to the cognitive route, to consumer satisfaction.

As a result, this research will help researchers in making consulting recommendations to PLB retailers of the three different product categories (vis-a-vis food and grocery; apparel; consumer durables) in developing and implementing more efficient strategies for increasing their consumer’s satisfaction and thus, winning over their loyalty.